KELLEY DRYE & WARREN LLP
A LIMITED LIABILITY PARTNERSHIP

1200 19TH STREET, N.W.
SUITE 500
WASHINGTON, D.C. 20036

(202) 955-9600

NEW YORK, NY
TYSONS CORNER, VA
CHICAGO, IL
STAMFORD, CT
PARSIPPANY, NJ

BRUSSELS, BELGIUM

AFFILIATE OFFICES
JAKARTA, INDONESIA
MUMBAI, INDIA

FACSIMILE
(202) 955-9792
www.kelleydrye.com

DIRECT LINE: (202) 887-1203
EMAIL: tcohen@kelleydrye.com

September 21, 2005

Via ECFS

Marlene H. Dortch
Secretary
Federal Communications Commission
The Portals
445 – 12th Street, SW
Washington, DC 20554

Re: **SBC/AT&T Application – WC Docket No. 05-65; Verizon/MCI Application – WC Docket No. 05-75**

Dear Ms. Dortch:

Throughout the Commission's proceedings to review the proposed mergers of SBC/AT&T and Verizon/MCI, the Applicants have contended that AT&T and MCI are not major suppliers of wholesale loop and transport circuits in the local market. XO Communications and other local competitive providers have strenuously disputed this contention and have submitted extensive data based on actual market bids and agreements to the Department of Justice pursuant to Civil Investigative Demands demonstrating unequivocally that AT&T and MCI are the two leaders among competitive providers offering local wholesale circuits and these data provide elaborate detail on the prices offered by these two companies and their overall competitive effect on the market. XO urges the Commission to go the Department of Justice to review these submissions and, as already orally indicated to the Commission staff, it will provide the necessary waiver to facilitate this. In the meantime, XO is submitting portions of a survey and research report prepared for it by The Yankee Group on Wholesale Communications Strategies that supports XO's claim that about the substantial competitive presence of AT&T and MCI in the local wholesale market.

The January, 2004 survey and research report by the Yankee Group is based on overall market data and interviews with wholesale buyers in the U.S. in the third quarter of 2003 about their purchases in various market segments, including local private line – which is the service purchased by the largest percentage of respondents. In this local private line market, which had addressable revenues of approximately $13B in 2003 and is expected to grow between 4%-5% per year, the survey and report concludes that **other than the RBOCs, MCI has the largest market share of the wholesale metro private line market in the U.S. (10%) and AT&T has the second largest share (9%). This means that AT&T and MCI each have revenues in excess of $1B for these markets – which is far from the insignificant sum alleged by the Applicants.** It also is critical to note that AT&T's and MCI's competitive presence is even greater than these market shares indicated because they offer these wholesale circuits in the very areas where the under the rule adopted in the Triennial Review Remand Order loop and transport UNEs are delisted. The survey and report then states, "RBOCs dominate metro private line, as expected. Tier 1 metros experience enormous competition, however." As indicated above – and as demonstrated by evidence submitted by XO and others – this competition comes principally from AT&T and MCI, and this is the very competition that will be lost if these mergers are approved by the Commission.

If the FCC permits the largest incumbent local exchange carriers – SBC and Verizon – to merge with their principal and significant competitors in the local wholesale market, customers are certain to suffer dramatically. The Commission has an obligation because of these circumstances to reject the proposed mergers. If it determines there are conditions that might alleviate these harms, it then must find they are sufficiently stringent and enforceable to ensure that customers find themselves in the same competitive position after the mergers as before.

Sincerely,

Thomas Cohen

Thomas W. Cohen
Kelley Drye & Warren LLP
1200 19th Street. NW – Ste. 500
Washington, DC 20036

Counsel for:

XO COMMUNICATIONS

Enclosure: Wholesale Communications Strategies, The Yankee Group, Prepared for XO Communications, January, 2004, pp. 1-13, 31

cc: Chairman Kevin Martin
Commissioner Kathleen Abernathy
Commissioner Michael Copps
Commissioner Jonathan Adelstein
Daniel Gonzalez
Michelle Carey
Russ Hanser
Jessica Rosenworcel

Scott Bergmann
Sam Feder
Thomas Navin
Jonathan Levy
Julie Veach
Bill Dever
Marcus Maher
Don Stockdale
Gail Cohen

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Not just talk.

Wholesale Communications Strategy Session:

Survey Results and Research Overview

Prepared for XO Communications

January, 2004

J. P. Gownder
Senior Analyst
jpgownder@yankeegroup.com
617.880.0262

Wholesale Communications Strategies
The Yankee Group

Agenda

- **Wholesale Communications Services Introduction**
- **Survey Results and Analysis**
- **Supply Side Research**
- **Recommendations for XO Communications**
- **Future Survey Initiatives**

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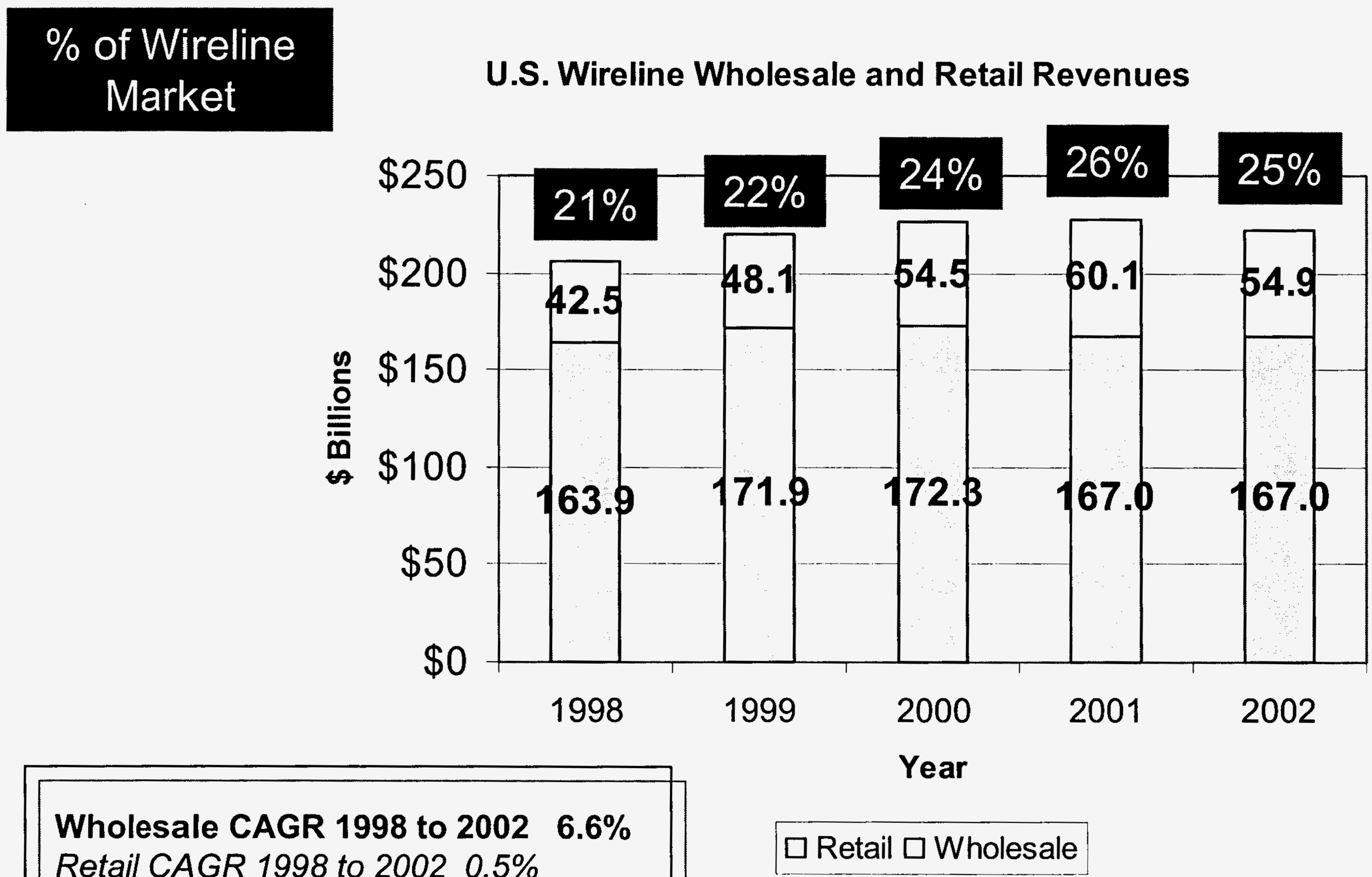
Wholesale revenue forms a large share of the overall U.S. telecommunications services market



Wholesale CAGR 1998 to 2002 6.6%
Retail CAGR 1998 to 2002 0.5%
Combined CAGR 1998 to 2002 1.8%

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The Yankee Group conducted a survey of wholesale buyers in the U.S. in 3Q 2003

- The survey gauges the state of the U.S. wholesale market from the perspective of significant wholesale customers
- Respondents included 150 buyers of wholesale services from CLECs, ISPs, ILECs, Resellers, Wireless Operators and IXCs.
- The survey focuses on demand and purchases of dark fiber, SONET private line bandwidth, Ethernet, and wavelengths in metro and long haul markets.
- The study captures motives, demand, and buying behavior including:
  - What drives demand for wholesale services?
  - What services customers are buying?
  - Why they are buying?
  - How they are buying ?
  - Who they are buying from?
  - Where carriers are falling short of customer expectations?
  - Which carriers are excelling; which are falling short?
  - To what extent has their purchasing activity/demand changed in the past year?
  - How do they expect their purchasing to change in the coming years?

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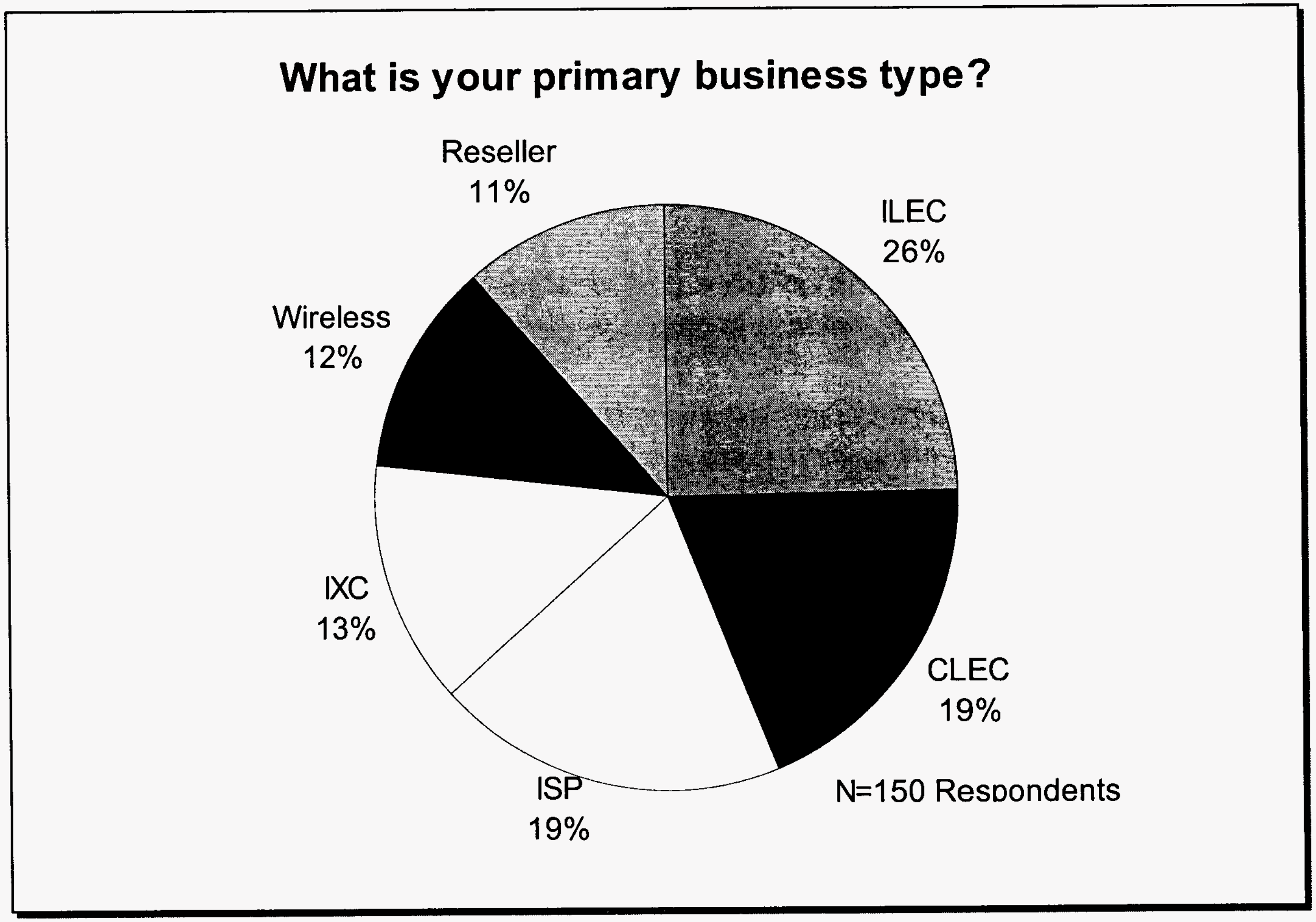
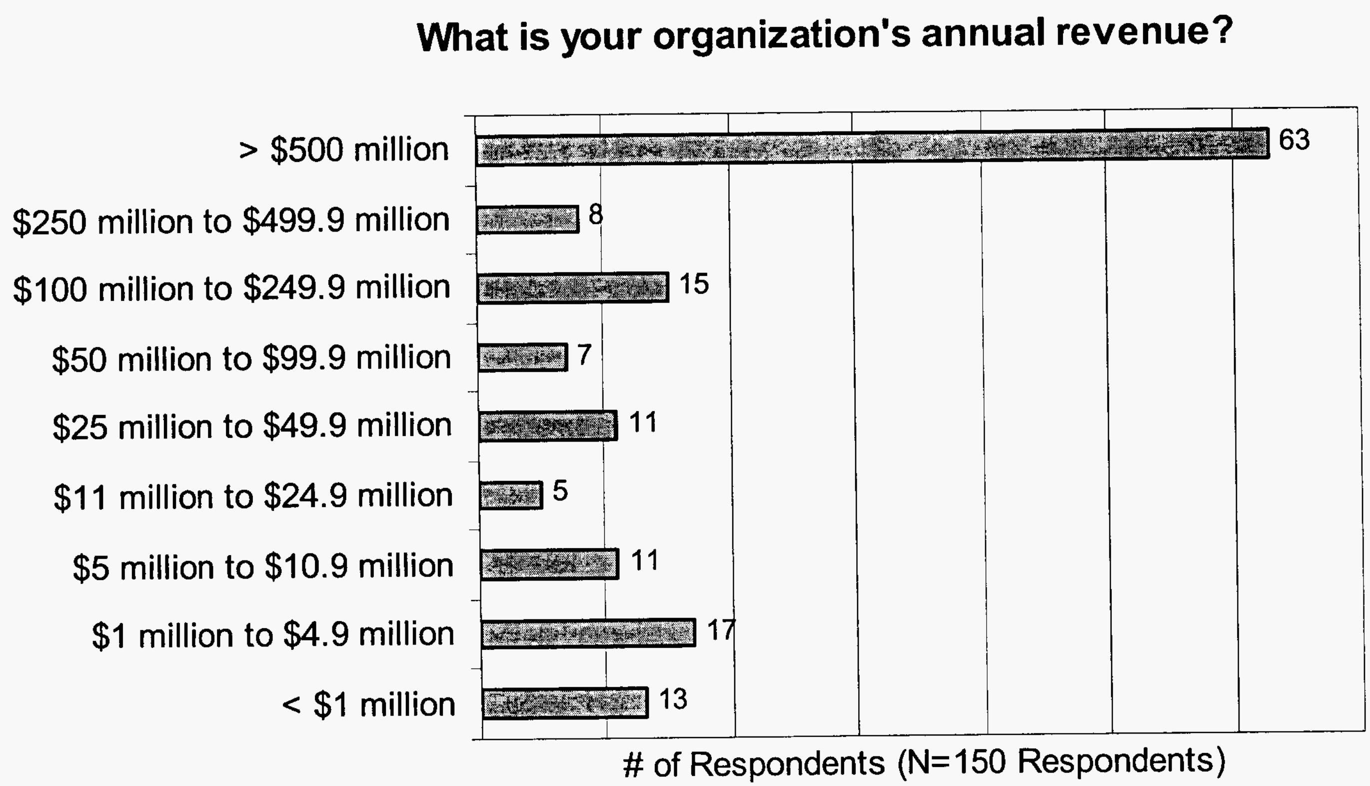
Survey respondents hail from diverse customer segments



Survey respondents span a variety of company sizes



Agenda

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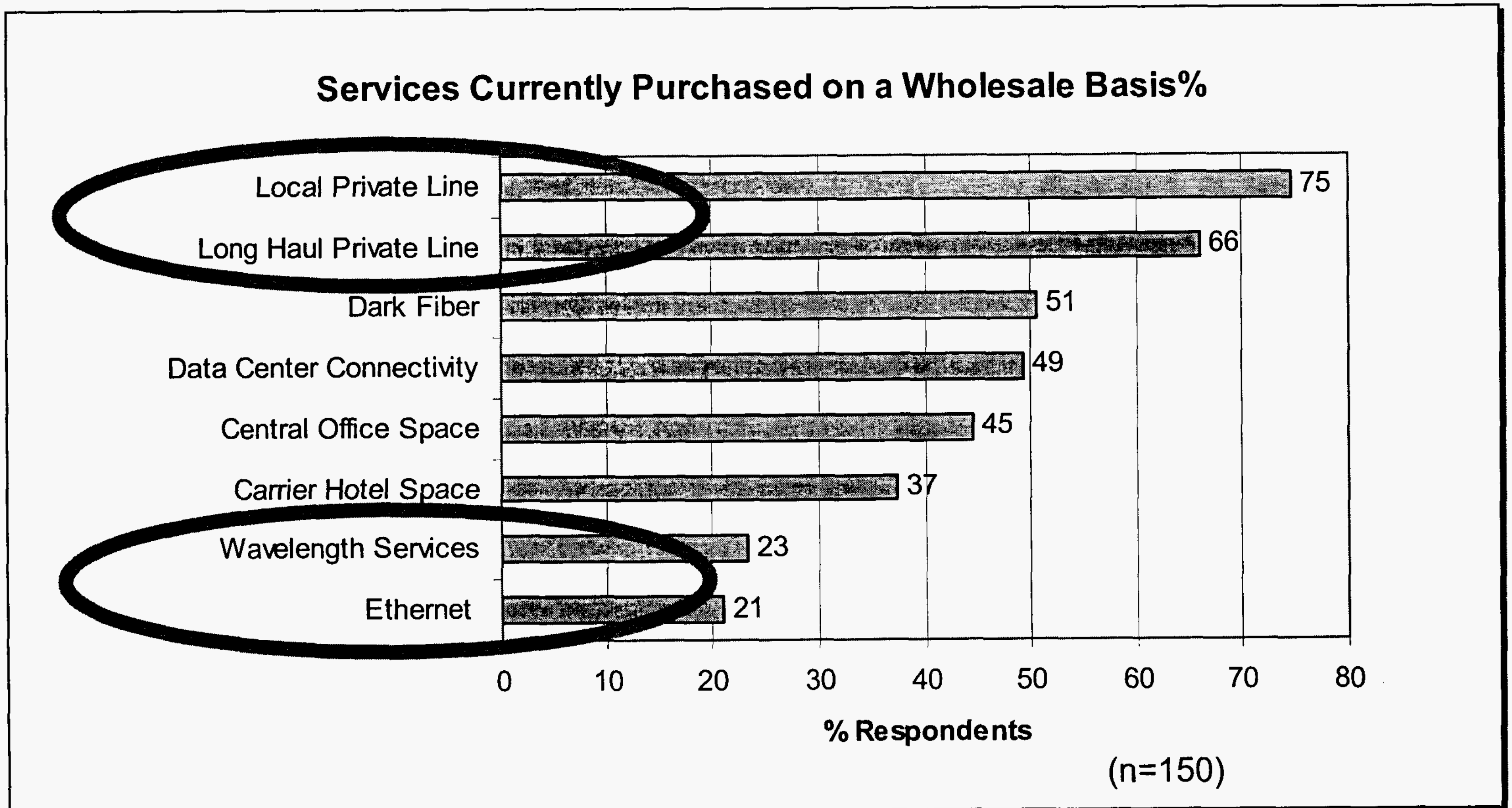
<u>Purchases</u>: Local and long haul private line remain most popular wholesale purchases



Private lines remain the "work horse" of the wholesale sector, while wavelengths and Ethernet remain nascent.

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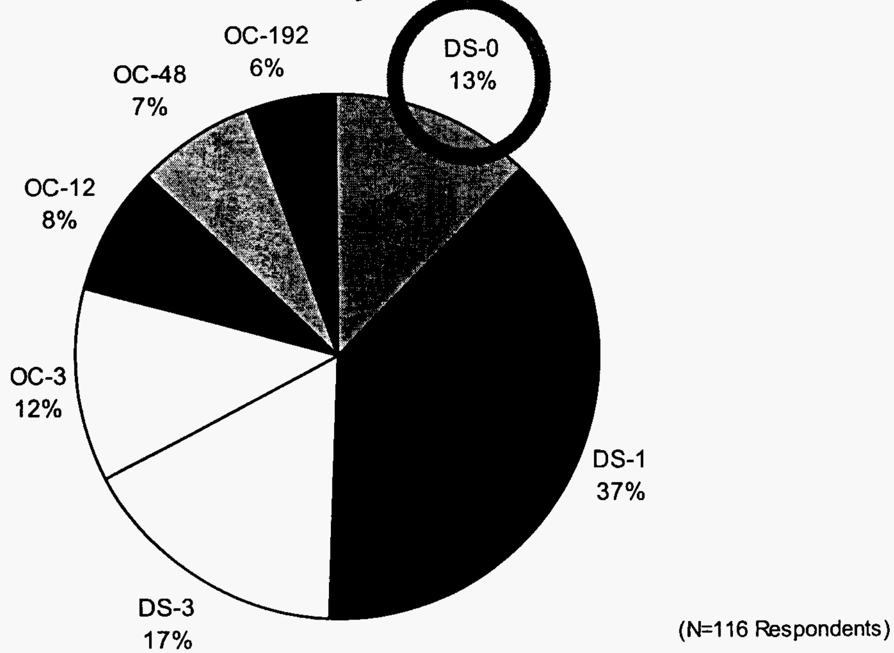
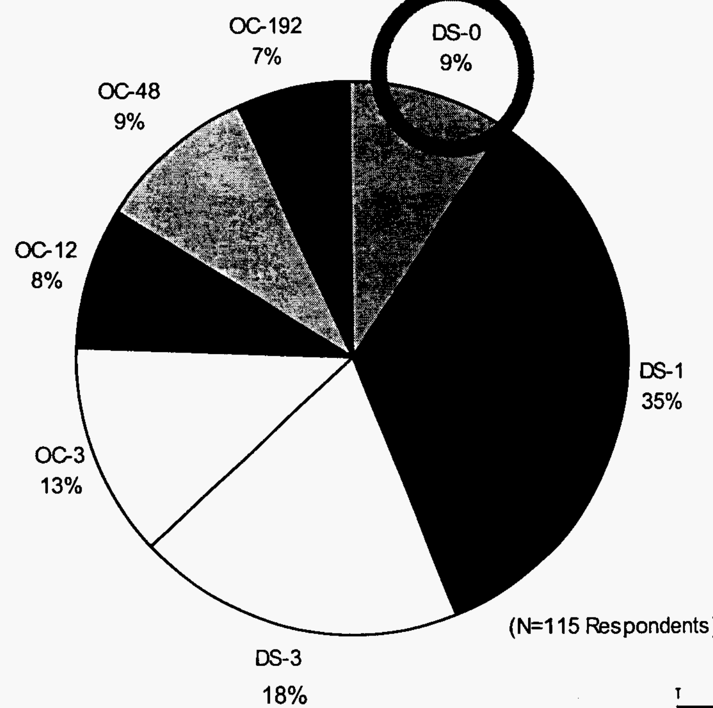
Capacity: Demand by circuit remains relatively consistent from 2002 to 2004

Please estimate a breakdown of you wholesale private line purchases in 2002 by circuit size



Please estimate a breakdown of you wholesale private line purchases in 2004 by circuit size



Private line capacity is increasing incrementally, mostly at the expense of DS-0 circuits.

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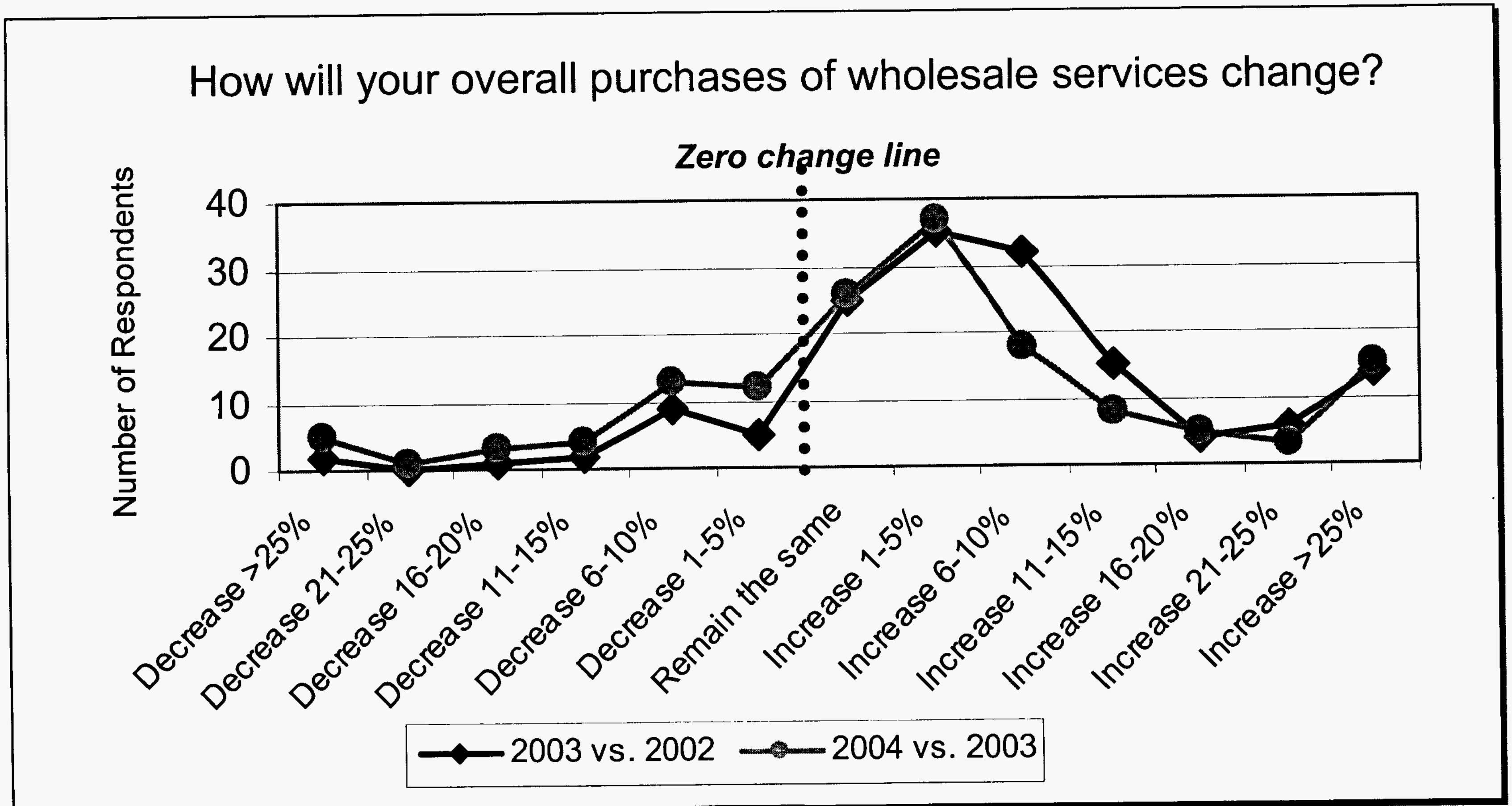
Demand (Introduction): Buyers of wholesale services are cautiously increasing demand



A majority of carriers report increasing their wholesale spending.

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Demand: Overall Wholesale and Private Line Growth Rates by Segment and Year

Wholesale Growth by Carrier Segment	Overall (All Segments)	ILECs	CLECs	IXCs	Resellers	ISPs	Wireless
2002 to 2003 growth in overall wholesale purchases	2.8%	1.3%	5.6%	-0.4%	0.1%	5.8%	2.9%
2003 to 2004 growth in overall wholesale purchases	5.2%	2.9%	7.1%	3.5%	4.6%	3.9%	3.9%
2002 to 2003 growth in private line wholesale purchases	1.9%	0.8%	2.7%	1.1%	-2.6%	5.9%	-0.3%
2003 to 2004 growth in private line wholesale purchases	4.4%	3.2%	4.0%	4.5%	3.1%	7.3%	3.3%
Sample size in survey		*n= 37*	*n=29*	*n=20*	*n=17*	*n=29*	*n=18*

Source: The Yankee Group, Wholesale Communications Strategies, 2003

Key Themes

- **Growth in wholesale from 2003-2004 exceeds that of 2002-2003, suggesting a bright outlook for the wholesale sector.**
- **Private line purchasing expected to reach a robust 4.4% growth.**
- **Surviving CLECs and ISPs will account for strong demand, alongside IXCs.**

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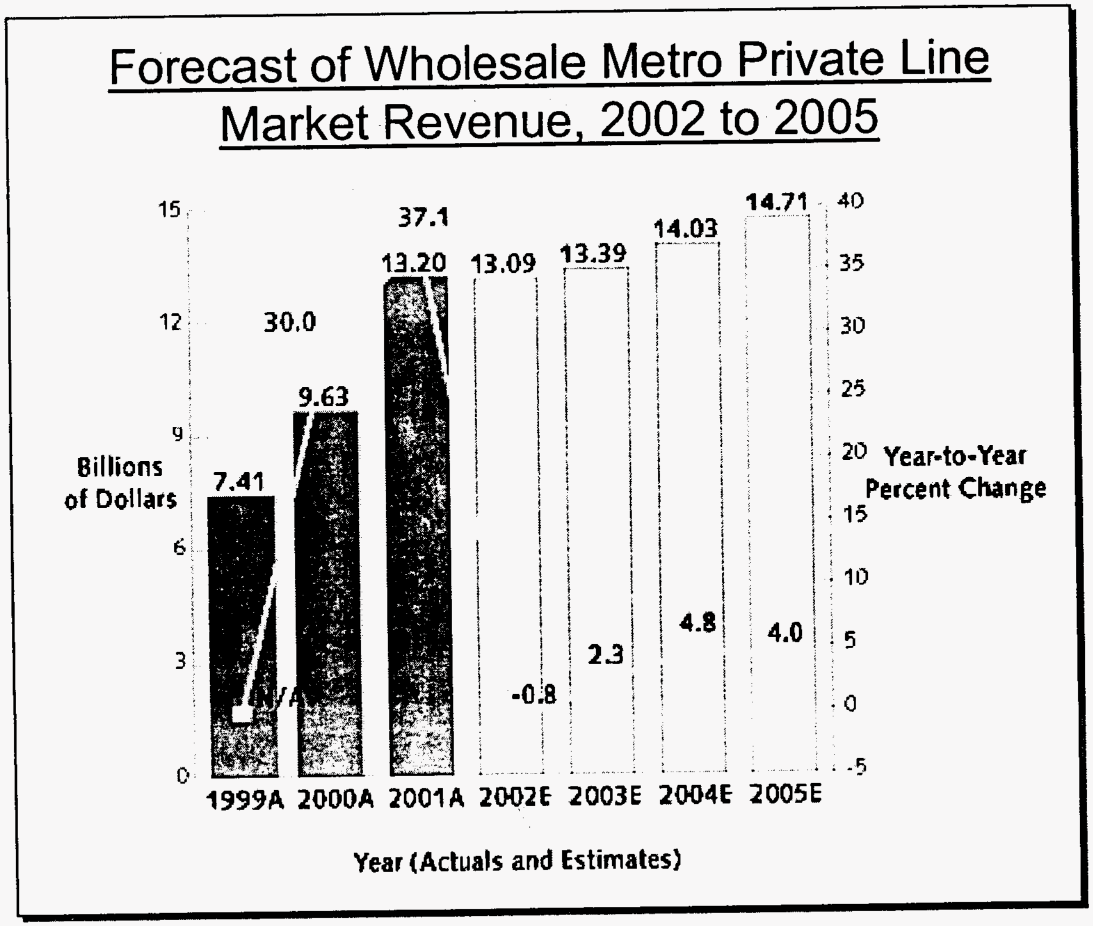
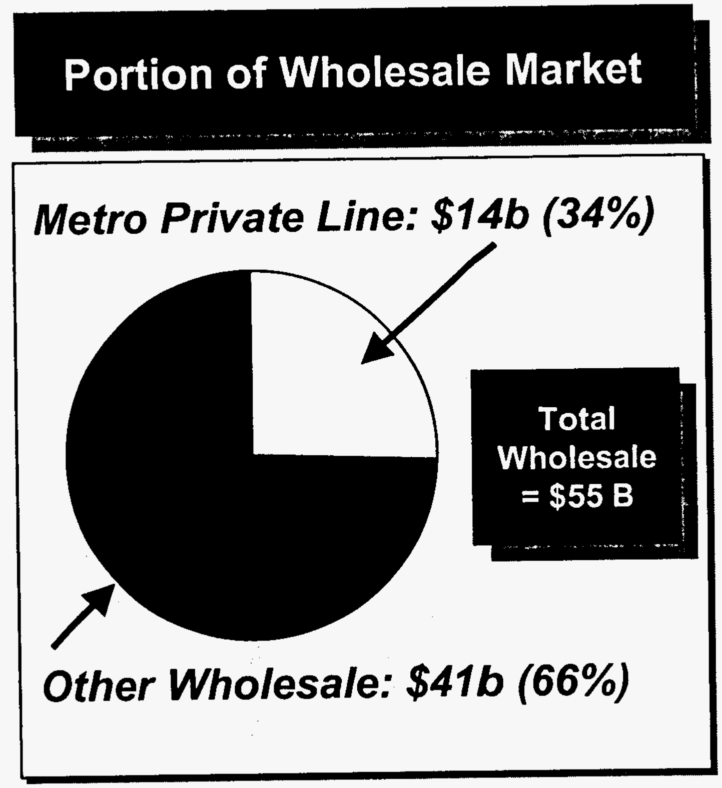
2004 Wholesale Metro Private Line Forecast





Wholesale Metro Private Line Market Share

RBOCs	BellSouth	Qwest	SBC	Verizon
Incumbent-geography market shares	74%	74%	75%	74%
In-region market shares (includes other ILECs)	54%	63%	58%	64%
Addressable metro private line market in-region ($ Billions)	2.584	1.478	5.487	3.615

Other Players	Notes
MCI	Market share ranking #1 outside of RBOCs; approximately 10% across all metros
AT&T	Market share ranking #2 outside of RBOCs; approximately 9% across all metros
Other ILECs	Comprise a large market share in regions where they are incumbent, usually Tier 2 to 4 areas
CLECs, Carrier's Carriers, Sprint	Very competitive in Tier 1 metros; varying competitiveness in Tier 2 to 4 areas

RBOCs dominate metro private line, as expected. Tier 1 metros experience enormous competition, however.

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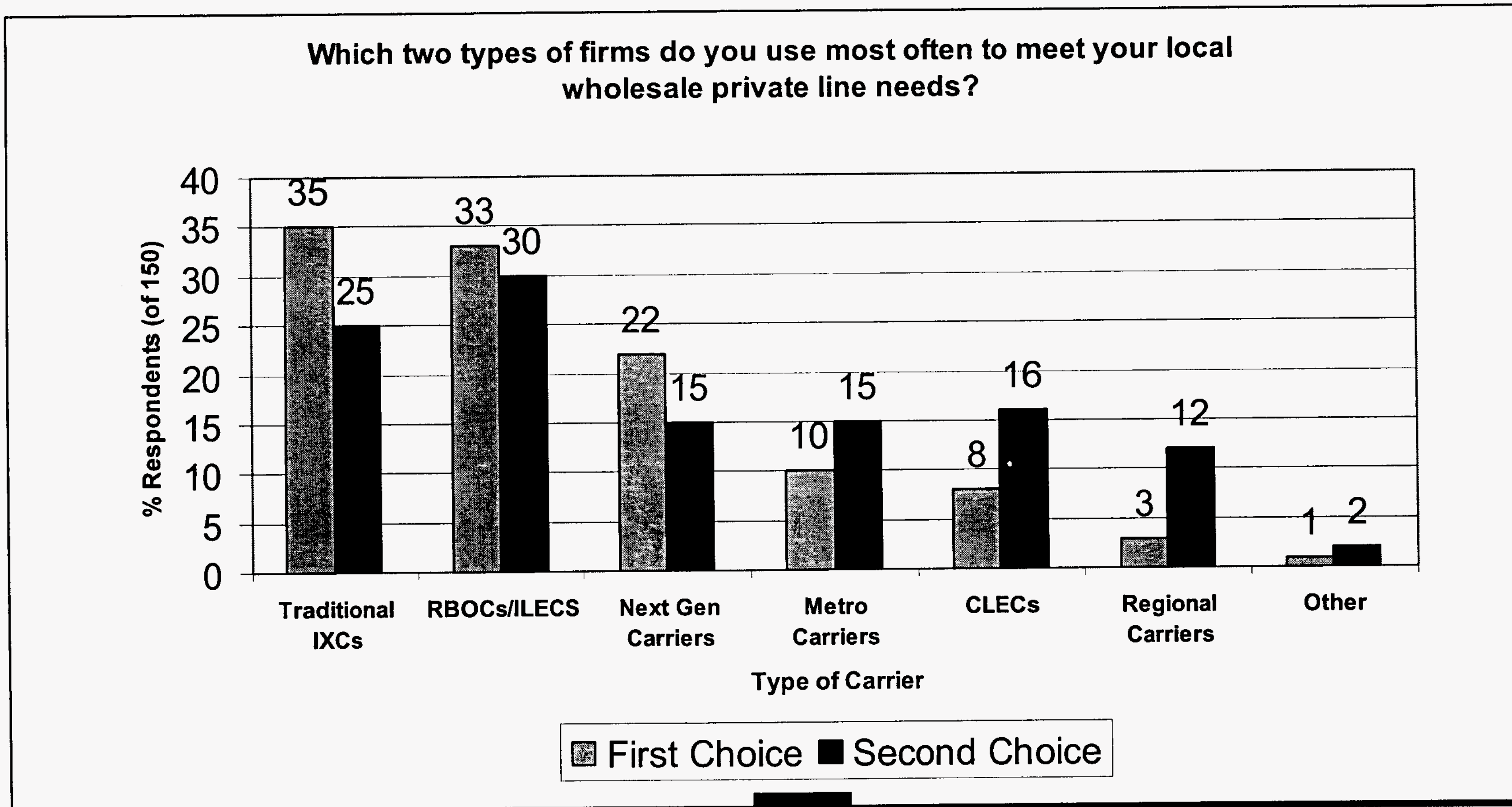
Buyer Choices:
IXCs and ILECs lead local wholesale private line market



Buyers tell us they'd rather not buy from the RBOC, but that competitors lag in availability.

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